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9 June 1980

MEMORANDUM

## MALTA UPDATE

Fourteen months after the British withdrawal from Malta, Prime Minister Dom Mintoff remains very much in control of a country enjoying considerable economic prosperity and relative political tranquillity. However, the Prime Minister's failure to make much progress toward arranging with his European neighbors security guarantees and foreign economic assistance, combined with large uncertainties about access to oil supplies, leaves these strategically located islands open to pressures that could threaten their long-term stability and independence. [ ]

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Mintoff's firm grip on nearly all aspects of Maltese life has kept the country on a fairly even keel since the British departure. The Prime Minister has become something of a folk hero for his role in ridding the country of a foreign military presence. His forceful and charismatic personality, his widely acknowledged skill as a political organizer, and his tight grip on the dominant Labor Party put him at a distinct advantage over his strongly pro-West but largely ineffective Nationalist Party opposition. Under his leadership Malta's economy has remained relatively healthy: unemployment is low, monetary reserves are rather high, and the inflation rate is respectable. [ ]

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There are domestic issues on which Mintoff is vulnerable. Both his educational and health policies have been widely criticized. His scheme for purchasing basic commodities in bulk as a budget-cutting device has resulted in shortages and higher prices, and military morale has dropped to new lows as a result of Mintoff's recent efforts to reorganize and politicize the armed forces.

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*This memorandum was prepared by [ ] of the Western Europe Division of the Office of Political Analysis. The paper was coordinated with the Office of Economic Research, Directorate of Operations and the National Intelligence Officer for Western Europe. Research was completed on 6 June 1980. Questions and comments may be addressed to [ ]*

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Nationalist Party leader Eddie Fenech Adami has so far been unable, however, to sustain any consistent, constituency-building opposition to Mintoff's policies. Although Nationalist Party discipline is probably stronger today than it has been for years, the organization still seems unable to compete on an equal footing with the Labor Party. [REDACTED]

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Malta's next parliamentary election will probably be held in the fall of 1981 but in any case must take place no later than February 1982. We see little reason now to believe that the Nationalists are any likelier to pull themselves together by then than they have been during almost ten years of Mintoff's rule to date. Barring a foreign policy debacle or a sudden, severe economic downturn, Mintoff seems a virtual shoo-in for another term. [REDACTED]

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With respect to Malta's international position, we--along with many Maltese--remain uneasy about what we see as the country's overdependence on Libya. Our unease is only underscored by a suspicion that Mintoff may not have a full appreciation of the potential for danger. [REDACTED]

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Malta's dependence on Libya is primarily economic at this point. Malta has obtained a large proportion of its oil from Libya at concessionary prices for a number of years. For 1980 Libyan oil is meeting somewhere between 70 and 80 percent of Malta's needs. The bargain prices and regular supply have been a boon to an economy as heavily reliant as Malta's on its oil-dependent tourist sector. More recently there has been a steady growth in the amount of Libyan financial aid, to a point where it plays a significant--if in the main indirect--role in the Maltese budget. Further, Libya and Malta have entered into several jointly owned and operated para-statal enterprises that employ large numbers of Maltese both in Malta and Libya. In another sphere, Libya has provided Malta with limited military assistance, [REDACTED]

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It is not inconceivable that the extent of Maltese-Libyan ties could lead Qadhafi to believe that he is in a position to make demands on Malta that would undercut both Malta's independence and Western interests in the area. [REDACTED]

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Almost as worrisome as Qadhafi's disruptive potential are hints that Mintoff may not have a clear understanding of how tenuous Malta's position is with respect to its unpredictable Arab neighbor. To be sure, Mintoff has on occasion expressed concern about his country's dependence on Libya for oil, and has taken several trips to the Middle East during the past year or so to try to diversify Malta's sources of supply. [REDACTED]

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[REDACTED] The Prime Minister, moreover, has given little public indication of concern about the extent of Libyan influence elsewhere in the life of his country, and if he persists in his seeming unwariness, we feel that the odds favoring a major miscalculation on his part with respect to his southern neighbor will continue to grow. [REDACTED]

Taking a bit of the edge off of our concerns about the Malta-Libya nexus are recent signs of life in the long moribund dialogue on security guarantees and economic aid between Malta and some of its closest European neighbors. The French, German and Italian governments have offered a technical aid package designed to upgrade Malta's inadequate water system, and Valletta has initiated discussions with the Italians on a bilateral security and aid package. But while we are not prepared to rule out the possibility that these developments could lead to closer Maltese-European relations, we are not inclined to read too much into them at this point. The water project has no strings attached, and Mintoff could easily take it and run. And Malta's demarche to the Italians may end up having more to do with domestic politics than with international concerns. With an election on the horizon, Mintoff will be looking for ways--if only symbolic--to undercut the Nationalists by giving his foreign policy at least the appearance of being more balanced. [REDACTED]

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In the end we are left with the conviction that Mintoff's conduct of Maltese affairs for the past decade has made the country over into something of a ticking bomb in terms of Western interests. The British presence provided a buffer against some of the more unsettling consequences of Mintoff's foreign policy decisions, but with the British gone and no European security guarantees to serve as an anchor, Malta's position with respect to larger international security matters remains up in the air. The unpredictability of the situation is only underscored by the mercurial temperments of the two men--Mintoff and Qadhafi--who are likely to have the most to say about where Malta ends up on the issues before it, and we are very much inclined to keep Malta on the list of those spots in the world where Western interests could come under siege. [REDACTED]

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